A goal of many soon-to-be retired people is to pay off all consumer and mortgage debt before they retire, including credit card debt. They continue using credit cards for convenience and safety, but they see wisdom in paying off the credit card balance each month to avoid high interest charges. It makes little sense to pay 16 to 20 percent interest on credit card balances when savings and investment earnings may be much less.

While young families sometimes carry credit card debt that exceeds 15% of household income, this would be unwise for retirees on fixed or declining incomes. If you are faced with credit card balances, shop for the lowest interest rate that meets your credit needs, and consider making adjustments in your routine spending patterns. As with all households when debt becomes a burden, the choices are to increase income or reduce spending.

FEDERAL CONSUMER CREDIT LAWS PROTECT RETIREES

While credit costs vary significantly from institution to institution, retirees can shop for the best credit deal because the following credit information must be disclosed under the federal Truth in Lending Act:

- ♦ amount financed
- ♦ total number of payments and their amounts
- ♦ a description of any security held by the creditor
- → annual percentage rate (APR) expressed as a percentage which reflects all the costs of the loan.
- ♦ finance charge stated as a dollar amount

 other loan terms and conditions such as date on which payment is due, late payment, and prepayment penalties.

In addition, the Truth in Lending Act regulates advertising of credit terms, prohibits credit card issuers from sending unrequested cards, limits a cardholder's liability to \$50 for unauthorized use of their card, and requires written itemization of the amount borrowed and all charges not included as a part of the finance charge.

All finance companies, stores, banks, credit unions, or credit card companies are required to disclose this information so that you can shop around for the best credit deal.

AGE DISCRIMINATION IS ILLEGAL

The Equal Credit Opportunity Act prohibits discrimination against an applicant for credit on the basis of sex, martial status, race, color, religion, national origin, age, or income from public assistance. The Act does not give you an automatic right to credit, but it does require that creditors apply the same standards of creditworthiness equally to all applicants. Prior to this law there were problems such as credit being cut off or reduced for retirees, no matter what their financial situation.

SUMMARY -- THE NEW RETIREMENT REALITY

Several important trends will affect the adequacy of your financial resources in retirement.

→ Growth of defined-contribution plans by corporations shift the responsibility for retirement planning to employees.

- ◆ Concern that the social security system may not be able to meet the demands of an increasing percentage of retirees compared to those paying into the system. Americans are living longer and are collecting social security payments for a longer period of time.
- → Employees change jobs more frequently, making it more difficult to accumulate, track, and consolidate employee retirement plans.

Many Americans would rather "charge it" than save for it. While consumer credit remains an important financial tool in retirement, it must be carefully managed to avoid overspending of limited household resources.

Financial planning to maintain your desired lifestyle in retirement requires careful consideration and balance among the three major sources of retirement income — your employer-based retirement plan, social security, and personal savings and investments.

QUESTIONS TO THINK ABOUT:

- ♦ Why it is a good idea for people to begin retirement planning early in their employment years?
- ♦ What are three common sources of income that retirees can expect to receive in retirement?
- ♦ Why is it important for employees to review and compare employer-sponsored retirement plans?
- ♦ What are the steps in developing a retirement financial plan?
- ◆ In what ways do federal credit laws protect retirees who use credit?

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The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

> Answers to Credit Problems Applying for Credit At Home Shopping Rights Bankruptcy Facts Buried in Debt Car Financing Scams Charge Card Fraud Choosing A Credit Card Co-Signing Credit and Divorce Credit and Older Consumers Deep in Debt? Equal Credit Opportunity Fair Credit Reporting Fair Debt Collection Gold Cards Hang up on Fraud High Rate Mortgages Home Equity Credit Lines How to Avoid Bankruptcy Indiana Uniform Consumer Credit Code Look Before you Lease Mortgage Loans Repossession Reverse Mortgage Loans Rule of 78s – What is it? Scoring for Credit Shopping for Credit Using Credit Cards Variable Rate Credit

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

What is a Budget?

What is the DFI?



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USING CREDIT IN RETIREMENT



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